



**Second Meeting  
2013 Interim  
June 25, 2013**

**Administration Building  
University Center  
Sioux Falls, South Dakota**

**Tuesday, June 25, 2013**

The second meeting of the Interim Committee on Appropriations for 2013 was called to order by the lead Co-Chair, Representative Fred Romkema, at 9:30 a.m. (CDT) in Room 253 at the Administration Building at the University Center in Sioux Falls, South Dakota.

A quorum was determined with the following members answering the roll call: Representative Fred Romkema, Co-Chair; Senator Deb Peters, Co-Chair; Representatives Jim Bolin, Lance Carson, Dan Dryden, Don Haggard, Spencer Hawley, Mark Mickelson, Dick Werner, and Susan Wismer; and Senators Stan Adelstein (via DDN), Phyllis Heineman, Tom Jones, Al Novstrup, Billie Sutton, Larry Tidemann, Bill Van Gerpen, and Jim White.

Staff members present included Fred Schoenfeld, Chief Fiscal Analyst; Annie Mehlhaff, Principal Fiscal Analyst; Sue Cichos, Principal Fiscal Analyst; Aaron Olson, Senior Fiscal Analyst; and Denice Houlette, Senior Fiscal Analyst.

(NOTE: For purpose of continuity, the following minutes are not necessarily in chronological order. Also, all referenced documents distributed at the meeting are attached to the original minutes on file in the Legislative Research Council (LRC). This meeting was web cast live. The archived web cast is available at the LRC web site at <http://legis.state.sd.us> under "Interim Information – Current Interim – Minutes and Agendas.")

**Approval of Minutes**

**REPRESENTATIVE BOLIN MOVED, SECONDED BY REPRESENTATIVE CARSON, TO APPROVE THE MINUTES OF MARCH 25, 2013. The motion prevailed unanimously on a voice vote.**

**Proration of Interest**

**Commissioner Jason Dilges, SD Bureau of Finance and Management**, referred to the ***Interim Report*** dated June 25, 2013, (***Document #1***) and discussed the company designations as either participating or nonparticipating.

Commissioner Dilges said that Section 1 of the Interim Report details the eight new and reassigned funds involved in the FY12 proration process. All eight funds are participating which means that the interest earnings are returned to the company. There is also a listing of new non-participating funds which means that the general fund will receive any interest that is earned on those particular funds.

**Senator Stan Adelstein** asked how the funds are determined to be participating or nonparticipating. Commissioner Dilges referred to page 18, Appendix C, which lists the guidelines used by Bureau of Finance and Management to determine the participating and non-participating designation. Commissioner Dilges explained that these are the Bureau of Finance and Management's recommendations to the Joint Committee on Appropriations and it is the Joint Committee on Appropriations' responsibility to approve these cash centers and the participating and nonparticipating designations (4-5-30 Appendix A). Commissioner Dilges explained that the remaining list of companies in the report refers to companies and designations that have not changed since last year.

This year, Bureau of Finance and Management does not have 12 months of data since the month of June is not yet complete. The Average Daily Cash (ADC) balance is \$1,183,395,886.06. The 11 months (plus the one month projected) is \$17,245,995.91 of earnings. The approximate yield is 1.37%. The nonparticipating fund percentage is 36.708% or \$5,555,386.89 ( $\$1,183,395,886.06 \times 1.37\% \times 36.708\% \times 90\%$ ). According to state law, they can only transfer 90%. In September, the Bureau of Finance and Management will transfer the remaining 10% to the general fund. Senator Adelstein asked what the yield was last year. Commissioner Dilges stated that the yield is down from last year but the ADC balance is up. **Mr. Jim Terwilliger, Economist, Bureau of Finance and Management**, stated the 90% transferred last year was \$8.5M and is now down to \$5.5M. Commissioner Dilges stated that the yield is being forced down by the maturing of investments. The \$5.5M is less than expected by about \$460,000.

**Senator Phyllis Heinemann** asked how the Building South Dakota fund created in SB 235 was determined to be participating. Commissioner Dilges explained that the last sentence of SB 235 states that "interest earned in the fund shall be deposited into the fund".

**SENATOR PETERS MOVED, SECONDED BY SENATOR TIDEMANN, TO APPROVE AND CERTIFY THE RECOMMENDED INTEREST PRORATION DESIGNATIONS AS PARTICIPATING AND NONPARTICIPATING AS PRESENTED BY THE BUREAU OF FINANCE AND MANAGEMENT. The motion prevailed unanimously on a roll call vote.**

### **Summary of Transfers and Transfer Requests**

Commissioner Dilges went on to discuss the Transfer Summary for the period of June 5, 2012, through June 17, 2013. Commissioner Dilges recommended revisiting the process of the emails and getting a better understanding of when transfers are executed in their office. Commissioner Dilges would like the statute to be changed so the Bureau of Finance and Management can eliminate the redundancy of the report and the emails being sent. Senator Adelstein asked how much money in transfers is reported on the document. Commissioner Dilges stated that it is a lot of money. The Commissioner noted that these cross three fiscal years. **Representative Susan Wismer** stated that the total on paper in the Interim Report is \$52 Million. And, there are additional transfers that have been done since the Interim Report was sent. Commissioner Dilges stated that they have had many instances where the emails have triggered questions from individual members asking about the various details of these transfers. The Bureau of Finance and Management responds only to the individual member and not the whole group.

Representative Wismer requested more detail about the Temporary Assistance for Needy Families (TANF) funding deficit and current needs, Board of Regents research funds that didn't materialize, and other transfers at the next Interim meeting. Representative Wismer stated that the \$6M transfer of general funds to TANF needs to be given more attention. **Representative Mark Mickelson** suggested that when the 2014 Appropriations hearings are scheduled, DSS should be scheduled over several days rather than 4 hours. **Senator Deb Peters** requested agencies discuss the budget transfers as part of their hearings next year.

Commissioner Dilges stated that the state is structurally deficit as it relates to TANF. Commissioner Dilges stated that he appreciates Representative Wismer's request and is willing to discuss the matter. Commissioner Dilges stated that if there are leftover dollars they would continue to expenditure correct to eliminate the [TANF] structural deficit. Commissioner Dilges stated that he wants to make it clear that they will run out of the federal funds unless they decide to add more general funds to the budget. **Representative Fred Romkema** stated that a discussion in this area would be helpful. Senator Heineman asked about the \$20M Medical Services carryover. Commissioner Dilges stated that an encumbrance will be done. Representative Wismer asked what the optimal federal funding block grant is for TANF. Commissioner Dilges stated that they would like to have one year's worth in reserve. Representative Mickelson agreed with Representative Wismer that they should not over budget in [Medical Services] every year to cover the funds needed for the [TANF] transfer. Representative Mickelson stated he would like to discuss the matter in more detail during the DSS budget hearing next session. Commissioner Dilges agreed more time is needed and he wants them to have a full understanding of this issue. Representative Romkema stated that this will be up for consideration during the next Legislative Session.

### **Estimated FY13 Fiscal Close and FY14 Budget Implementation**

Commissioner Dilges stated that the Bureau of Finance and Management will close the fiscal year on June 30. They are currently processing transfers and expenditure correcting various items to get ready for the June 30 closing. They have actuals for 11 months on the revenue side. On the operating expenses side, they have 50 weeks of 52 weeks completed. On the revenue side, the General fund receipts will come in slightly larger than the revised adopted number provided in March (\$13.1M higher than the March estimate). The majority of that will occur in the area of bank franchise tax - \$7M additional that will now be able to be retained by the State as the result of a payment made in June 2012 and held in the general fund until July and wasn't built into revenue estimates that they adopted. They know now that they will be able to retain that \$7M payment. They also received \$2.5M on the bank card side. This is a total of \$9.5M. The last couple months of sales and use tax have been extremely flat – have not seen the typical spring bump. They are still on track to end the fiscal year with 3.5-4% growth in sales tax (sales tax and use tax is 60% of the state's revenue). They are estimating about \$13.1M in the State's favor with actuals to come later.

Right now, the Bureau of Finance and Management is projecting \$10.1M in budgeted general fund reversions. There is \$300,000 in specials and carryovers to revert. Medicaid Title XIX is seeing a very flat population in terms of Medicaid eligibles. They are seeing a healthy growth in the Children's Health Insurance Program (CHIP) program. The economy is growing and families are graduating from Title XIX and CHIP programs.

Commissioner Dilges said that \$23.2M is the general fund unobligated cash balance on June 30. On July 1, if not obligated, it will automatically flow to the Budget Reserve Fund. The Budget Reserve Fund along with the Property Tax Reduction fund has \$134.7M today. The two funds together would total \$158M if estimates hold true.

**Senator Tom Jones** asked about the amount budgeted for revenue. Commissioner Dilges stated that the revenue number that was adopted in March is \$1,349,171,952. Today they are estimating that number will be \$1,362,297,203. This is an improvement of \$13,125,251. That does include \$300,000 in reverted specials and encumbrances that they have to record as revenue. These numbers are just projections and actual numbers will be available in the year-end release in mid-July.

Senator Peters stated that it would be nice to have revenue projections from the Legislative Research Council staff and that is a goal for next year. Senator Peters believes it is not good to rely only on the Executive Branch estimates. Representative Romkema asked what has been done in the past.

Senator Heineman asked how HB 1060 will affect the end of the year. The final section states that funds appropriated by this act shall be carried over to 2013. Senator Peters stated that those agencies will have unspent dollars that will be available to spend. Senator Heineman stated this would affect nearly every department. Commissioner Dilges stated that they interpret this as what they believe to be the legislative intent - that they want them to encumber in areas that they need the funds. Those areas not affected will be available for reversion. Representative Mickelson asked how much will need to be encumbered. Commissioner Dilges responded that \$20M for Medicaid will need to be encumbered.

**Ms. Liza Clark, Chief Budget Analyst, Bureau of Finance and Management**, stated that the FY2013 money is \$27.4M general funds, \$27M federal funds, \$17.8M other funds for a total of \$72.3M. A good chunk of this is the Medicaid, Commissioner Dilges stated. Representative Mickelson asked for details on the \$27.4M in general funds. Commissioner Dilges said that it represents an expenditure of funds completely. The \$20M in Medicaid is not included in this number and will not be available to go to Reserves.

Ms. Clark gave an example of this: HB 1060 will have a carryover of \$844,000 in the Unified Judicial System for the Criminal Justice Initiative given in HB 1060.

Commissioner Dilges explained that the amounts encumbered in HB 1060 are not part of the \$10M in reversions that they believe will go into the budget reserve fund.

Ms. Clark stated that out of the \$27M for carryovers, \$24.3M is because of either HB 1060 or SB 90. The other amounts are because of actual contracts.

Representative Wismer stated that the Manpower money has not been spent and will be carried over. Commissioner Dilges explained that it is a second year carry over and not included in the \$27M carryovers.

Commissioner Dilges stated, for the record, that \$27M is for encumbrances and \$24M is directed by legislation.

## Distribution of FY14 Pooled Salary Policy Funds

**Mr. Colin Keeler, Director of Financial Systems and Operations, Bureau of Finance and Management**, discussed the process and explained the FY14 salary package (**Document #2**). Representative Wismer asked if there was a balance remaining when the salary policy was appropriated in a pool. Mr. Keeler stated that yes; they always have had a balance remaining. There is always a variance in what is appropriated and what is actually distributed. Commissioner Dilges stated that the money will stay in the Bureau of Finance and Management pool and will revert after FY14. Representative Wismer stated that the \$464,725 in other funds is very relevant and asked what will happen with that. Mr. Keeler stated that is all expenditure authority and it will simply go away since there is no cash behind it.

## Other Business

Senator Adelstein stated there are negotiations with a contractor going on regarding the South Dakota Veterans' Home. Senator Adelstein thought it is being built in the most impossible location. Senator Adelstein would like the committee to write a Letter of Intent regarding the project. He suggested it be moved to a normal construction site where costs could be reduced by 35%. Representative Romkema stated that topic is on the Government Operations and Audit Committee (GOAC) agenda. Senator Peters stated that the operations side will be dealt with in GOAC. Senator Peters said it is too early for the Joint Committee on Appropriations to get involved. **Representative Dan Dryden** said that GOAC plans to address this topic at their September/October meeting.

**Representative Lance Carson** made a request that this topic be put on the agenda of the GOAC August meeting so that the Joint Committee on Appropriations can discuss it at their next meeting. Sen. Tidemann stated he will give that recommendation due consideration when working on the next GOAC agenda.

## Adjourn

**REPRESENTATIVE CARSON MOVED, SECONDED BY SENATOR PETERS, TO ADJOURN. The motion prevailed unanimously on a voice vote.**

The committee adjourned at 11:45 a.m.



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